

Friday, October 1, 1976

Dear Member:

Don't let the dip of "leading indicators" this week floor you. The economic expansion isn't about to sputter out and stop dead. For every signal of recent weakening in the business statistics there's an offsetting indication of underlying & growing strength.

Here's RIA's analysis of the outlook in 4 bellwether areas:

Consumer spending: Department stores report a "dead" Sept., and we hear many stories of strong resistance to apparel prices. But other store sales have been picking up nicely in recent weeks.

Total Sept. retail sales were probably up slightly over Aug. and we'd expect a continued jerky climb in volume through winter. Biggest gains will be in furniture, appliances, other hard goods.

Business capital spending: The statistics on orders placed have been confusing -- a strong rise halted by a sudden slump. Some of the rise was undoubtedly an attempt to beat price hikes, and much of the August drop was a washout of this hedge-ordering.

But the net fact is, capital goods makers are heavily booked, and reports on machine-tools, forgings, etc. show orders rising. So, capital outlays will keep climbing, though not at a boom pace.

Housing -- weakest of all weak spots -- is coming to life. The rise in permits is pretty well established, no 1-month fluke. And contractors' costs, for labor, financing, and many materials, are finally showing hopeful signs of slowing their long uptrend.

Biggest relative pickup is in apartment building -- at last. Nationwide, the housing recovery is spotty, even within regions. So. Cal. is in a mini-boom, e.g., but not the rest of California.

Inventory-building is another illustration: The lack of it, these last couple of months, had had a lot to do with the "pause." Businesses have been warned so much about the overstocking danger they've been keeping a tight lid on inventories at every level.

One result: If customer demand is anything better than dull in the next few months, suppliers will be forced to rebuild stocks. That'll put the familiar "inventory multiplier" to work again -- pushing up output faster than final demand alone will call for.

This all adds up to a better 3-to-6 months coming up ahead. Don't look for anything like the hot opening months of this year. But the expansion will be on track, more solid, less doubtful.

U.S. imports soaring, protectionism cries muted -- How come? With 22% more coming in than in '75, unemployment still going up, an election year -- you'd expect to hear a real roar of protest.

One reason you don't is all the quiet negotiating going on. Treasury has gotten some European automakers to raise their prices. Japan is discussing restraints on the huge volume of color TV's. Textiles have been quieted by an international compact on fibers.

A second reason is Pres. Ford's stand against protectionism. He rejected calls for help on the avalanche of Brazilian shoes, refused to recommend protection from imports for honey producers. He's even challenged Congress' constitutional right to legislate.

Third, U.S. businesses can complain, get relief in many ways. Congress can buck complaints to various governmental agencies, under the 1976 Trade Act, provide help at relatively low cost.

Most important may be the big rise in the importers' lobbies. Distributors & marketers of foreign goods have jobs at stake too, giving them the same kind of argument made by U.S. manufacturers. That's true particularly in retail fields like autos and shoes.

In sum, the line between protection & free trade has blurred, the time when they divided neatly on principle is long since past. The U.S. economy is tied into the world economy in complex ways.

That could change back if the global economic recovery sours. The ghost of all-out protectionism could come to life with a bang. But a thriving U.S. & world economy will mean more free trade.

Consumer Product Safety is up for some basic streamlining. The Commission Chairman has said its "age of infancy" is over. A new task force report spells out what that is likely to mean.

A whole set of administrative simplifications is on the way, aimed at ending today's "excess of informal rules of procedure." Business should find the Commission at least easier to deal with.

Priorities for tackling the most "doable" jobs are set up. There'll be about 30, half of which will be completed during 1977. That, too, will help business know what the CPSC is focusing on.

Budget allocations stress problems more, compliance less. If that sticks, it could ease some of the pressures on business. But it is also certain to raise a lot of hackles in Congress, where safety advocates say more enforcement is needed, not less.

Pres. Ford will take credit for U.S. successes in Rhodesia, in his Wednesday debate with Carter, but he's a little premature. Rhodesia's Ian Smith is still a jump ahead of all his opponents.

Smith has managed to appear willing to negotiate black rule. But he's tied all kinds of strings to the "interim gov't" phase, provoking the black African Presidents to demand immediate change.

That undercuts the U.S.-British-S. Africans' own timetable. There's real question whether they can force Smith out quickly -- or even want to; none of the three has anything that crude in mind.

Someone must blink if this head-to-head standoff is to end. All the logic and evidence says it will be Smith, sooner or later. Probably later; he's a master at that, has lost none of his skill.

Canadian Prime Minister Trudeau is in deep political trouble, won't outlast the coming year, as the mess in Ottawa grows worse. This is bad news for the U.S. with its huge economic stake there, and its diplomatic concern about a stable neighbor in the North.

Here's what's happening: Wage & price controls aren't working; inflation is running at 8%; unemployment is sticking around 7%. Neither is likely to improve, in an economy plagued by weaknesses. A one-day general strike this week will add to general discontent.

Efforts to heal Canada's French-English split got nowhere, served only to antagonize the English-speaking majority even more. Quebec's separatists are stronger, talk openly of a French state.

Relations with the U.S. remain strained over such issues as Trudeau's flirtation with Cuba, curbs on oil & natural gas export, competition for wheat markets, etc. And they won't improve much until Conservative Joe Clark or Liberal John Turner becomes Premier.

Is there any relief in sight on rising medical plan costs? We've looked into what some unions and employers have been doing, are guardedly optimistic that progress is being made. Examples:

...Two NY unions, the United Storeworkers and District 37 of the Amer. Fed. of Municipal Workers saved \$300,000 in 4 years. How? No surgery allowed without a second physician's confirmation.

...The International Ladies Garment Workers has made a deal with 4 major pharmacists for mail-order buying at wholesale prices.

...NY's United Federation of Teachers saved \$1 mill. a year, cut dental insurance premiums by 4.8% via "alternate treatment", e.g. a 2nd opinion on cheaper treatment; also no dental cosmetics.

...Rockwell International has its insurer review claim costs, focus on unwarranted claims, habitual abusers of the benefit plan. Cost is less than 4% of total premiums, produced 23% in savings.

...Goodyear pays health care bills directly to the provider; "self-insuring" instead of working under a usual insurance plan.

...Some major firms in Rochester like Xerox, Eastman Kodak, Sybron and the Lawyers Cooperative Publishing Company supported creation of a big prepaid group practice that qualifies as an HMO. Health Maintenance Organizations focus on preventive medical care, more use of lower-paid technicians, minimizing hospitalization.

Congress just amended the 1972 HMO law to boost their number. There are still bugs in the plan, particularly overutilization, but health planners feel HMO's offer one of the best ways to save.

None of these devices is THE solution to burgeoning costs, nor is each one equally applicable to every kind or size of firm. But together they're a useful picture of ongoing efforts to cope, should offer hard-pressed execs & administrators some new ideas.

Can the U.S. bail out Britain's collapsing pound? Can anyone? In our judgment, there just isn't enough U.S. or any other money. Aid plus a major British bootstrap effort is what will be needed.

First, on aid: The \$4 bill. IMF loan is a drop in the bucket. More like \$10 bill. is necessary to keep Britain from going under. Question is where it's coming from -- with what strings attached.

Britain's Common Market partners can't help her very much; the French franc and Italian lira are under the same pressures: internal inflation, gov't outlays outracing controls, wage costs, foreign investors shying away, particularly petrodollar holders.

That leaves the U.S. and W. Germany, working through the IMF. Together with Japan, this is where Free-World money power centers. At Manila this week the whole subject will get a real going over, and help to Britain will be tied to what Britain does for herself.

This is the end of the line for her, in two major respects. One is her role as one of the world's principal money exchanges. The diminished pound can't compete with the dollar, mark or yen.

The other is her subordination of economics to social needs. As her Labor Govt. leaders have been trying to tell their people, one way or another the country is in for a long bout of austerity. If they don't do without voluntarily, economics will impose it.

No one is betting the Govt. chiefs can get the message home. There's talk of Churchill's blood, sweat, tears -- minus Churchill. Britons are not about to give up all their "services" so easily, many union militants are prepared to see "capitalism" torn down.

Some horrendous choices may be forced on Britain's leaders, bringing about the worst upheavals since Cromwell's Revolution.

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